
Reserve Capacity Mechanism Review

The Australian Energy Council (the “AEC”) welcomes the opportunity to make a submission on the Reserve Capacity Mechanism (“RCM”) review consultation paper (“Consultation Paper ”) published by Energy Policy WA (“EPWA”).¹

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035, and is part of the Australian Climate Roundtable promoting climate ambition.

The AEC makes the following comments in relation to some aspects of the Consultation Paper.

(3) Do stakeholders support inserting a new flexible capacity product in the design of the RCM?

The AEC supports a new flexible capacity product on the basis that it provides an incentive for these products to enter the market and earns sufficient revenue to recover their costs.

The obligations on these flexible capacity products should

The Wholesale Electricity Market (“WEM”) has been subject to a range of reforms and changes over the last few years. There have been amendments to the Access Code, the WEM Rules have been updated, market power mitigation is again be considered and, more recently, there has been this review of the RCM. Most of these new policies are considered in isolation but, together, these reforms and settings can have a substantial impact on generators and their revenues, and this has stimulated significant interest in revenue sufficiency over the last year.

¹ See [Reserve Capacity Mechanism Review consultation paper](#)

The AEC engaged Marsden Jacob Associates (“MJA”)

13(a). Do stakeholders support replacement of the current Availability Classes with Capability Classes? AND 13(b). Do stakeholders support the conceptual design proposal for the Capability Classes?

The AEC supports, in principal, replacing the current Availability Classes with Capability Classes but suggests further consideration needs to be given to the following issues:

- The Consultation Paper states “that capacity certification must evolve to allow treatment of hybrid facilities as a single entity. Separating storage from its co-located wind or solar generation for certification purposes will increasingly work against the behaviour required in a world with more intermittent generation.”⁷ This raises questions over how co-located wind and solar projects will be considered for certification purposes and what Capability Class they will be assigned. For instance, a co-located solar project that discharges the battery storage during its allocated dispatch period would have a different value to, say, a wind farm that uses battery storage to even out its wind generation profile throughout the day. Given the varying operating profiles, would these facilities be treated differently or allocated to the same Capability Class? What Capability Class would they be assigned to or do they have their own, separate, Capability Class? What obligations would be put on each of these facilities?
- A potential unintended consequence of treating hybrid facilities as a single entity is that it may not create the ‘correct’ set of incentives for the facility and for the market. In other words, the obligations put on a hybrid facility could dictate how they operate and that might not match the objectives of the participant. Equally, the obligations could also mean that hybrid facilities have the same operating profile and this may not lead to the best outcomes for a market that increasingly requires flexibility.

The AEC remains open minded about treating hybrid facilities as a single entity and also acknowledges that there are a range of challenges. The obligations and financial incentives for hybrid facilities need to balance the market requirements with how owners may prefer to operate their hybrid facilities. This is an important issue with significant implications for facility owners and the AEC suggests further detailed consultation is required. As part of this, EPWA should also consider the following issues:

- Will treating hybrid facilities as a single entity incentivise them to enter the market and assist with the energy transition?
- Does this approach provide revenue sufficiency for hybrid facilities and allow them to operate using their preferred dispatch profile?
- Does this create the ‘right’ set of incentives for facilities and the market?
- The proposed Capability Classes appear to group together different products, such as demand side management, battery storage and gas generation. Each of these products offer different reliability and value to the market, and it is inappropriate to price them similarly.

MJA and FTI Consulting note that most new generators will not earn sufficient revenue and there is a potential for under-investment because they cannot recover their costs with the low and variable reserve capacity price. Both.1 (f)-13..9 (pr)-6.4 Tw ()Tjenue annap cd (er)-6.4 (3.2 (,-)1Tw 20.157 (l)3.2 (t)-1.1200

13(c). Do stakeholders support retaining the 14 -hour fuel requirement, with its practical implementation to be considered in stage 2 of the review, and the all -

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17(c). Do stakeholders support the proposed methodology to assign CRC to facilities in Capability Class 2?

Further to the above response to 13(a) and 13(b), the AEC considers that each product should receive a capacity price based on their reliability and value to the market. Additionally, further to the above response to 14(a)(b)(c), Class 2 facilities could be separated based on their availability duration and receive a different capacity price.

17(d). Do stakeholders prefer one of the three